Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Kai! Garib Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Kai! Garib Local municipality set out on pages X to X which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Kai! Garib Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

Payables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for trade payables for the current and prior year, due to the status of accounting records. Supporting information for trade payables balances were not provided for audit. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade payables stated at R641 249 951 (2021: R488 764 649), in note 19 to the financial statements. In addition, during 2021, the municipality did not recognise all items of trade payables in accordance with GRAP 1, *Presentation of financial statements*. Consequently, trade payables was understated by R30 215 780,46. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the trade payables for the current period.

4. I was unable to obtain sufficient appropriate audit evidence for consumer debtors with credit balances included in payables from exchange transactions for the current and prior year, due to the status of the accounting records. I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to consumer debtors with credit balances stated at R16 814 274 (2021: R14 640 994) in note 19 to the financial statements.

Contracted services

5. I was unable to obtain sufficient appropriate audit evidence for contracted services for the current and prior year due to the status of the accounting records. I was unable to confirm contracted services by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to contracted services stated at R59 512 479 (2021: R50 266 095) in note 35 to the financial statements. In addition, the municipality did not recognise all contracted services for the current year in accordance with GRAP 1, *Presentation of financial statements*, as the municipality did not account for invoices and payments in terms of the accrual system of accounting. Consequently, contracted services was understated by R3 823 381,75 and trade payables was understated by the same amount. There was an impact on the deficit for the period in the financial statements.

General expenses

6. The municipality did not recognise all general expenditure in accordance with GRAP 1, *Presentation of financial statements*, as the municipality did not have an adequate system of internal control to ensure that all the invoices received are completely recorded, resulting in general expenses being understated in the current year. I was unable to determine the full extent of the understatement as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

7. During 2021, I was unable to obtain sufficient appropriate audit evidence for general expenses due to the status of the accounting records. The municipality did not have adequate systems of internal control for the preparing and approving of payments and journals. I was unable to confirm general expenses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to general expenses stated at R 32 980 190 in note 40 to the financial statements. In addition, auditor remuneration included in general expenses was incorrectly recognized resulting in auditor remuneration included in general expenses being overstated by R3 463 251. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the general expenses for the current period.

8. I was unable to obtain sufficient appropriate audit evidence that travel, subsistence and accommodation included in general expenses for the current year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the travel, subsistence and accommodation by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to travel, subsistence and accommodation included in general expenses stated at R6 973 691 in note 40 the financial statements.

9. I was unable to obtain sufficient appropriate audit evidence for repairs and maintenance included in general expenses for the current year due to the status of the accounting records. I was unable to confirm repairs and maintenance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to repairs and maintenance included in general expenses stated at R11 944 210 in note 40 to the financial statements.

Revenue from exchange transactions

10. The municipality did not recognise interest earned on outstanding debtors from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not charge interest as per the credit control and debt collection policy. I was unable to determine the full extent of the understatement of interest earned on outstanding debtors included in revenue from exchange transactions and receivables from exchange transactions for the current and previous year, as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

11. During 2021, I was unable to obtain sufficient appropriate audit evidence for service charges for the prior year due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and events and could not reconcile the transactions and events to the financial statements. I could not confirm service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charges stated at R107 212 155 in note 26 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My audit opinion in the current year financial statements is also modified because of the possible effect of this matter on the comparability of the services charges for the current period.

Revenue from non-exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence that property rates for the current year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates stated at R23 381 183 in note 29 to the financial statements.

13. During 2021, I was unable to obtain sufficient appropriate audit evidence for property rates due to the status of the accounting records. I could not confirm property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the corresponding figure for property rates stated at R22 463 257 in note 29 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the revenue from non-exchange transactions for the current period.

Receivable from exchange transactions

14. During 2021, I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions and allowance for impairment due to the status of the accounting records. I could not confirm property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the corresponding figure for receivable from exchange transactions and allowance for impairment stated at R246 161 803 and R234 380 552 respectively in note 8 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the receivables from exchange transactions for the current period.

Debt impairment

15. During 2021, I was unable to obtain sufficient appropriate audit evidence for debt impairment due to the status of the accounting records. I could not confirm debt impairment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the corresponding figure for debt impairment stated at R47 722 971 in note 36 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the debt impairment for the current period.

Statement of Comparison of Budget and Actual Amounts

16. I was unable to obtain sufficient and appropriate audit evidence for figures in the statement of comparison of budget and actual amounts, due to the status of the accounting records. The amounts for the approved budget related to the prior financial year instead of the current financial year. In addition, the municipality did not disclose the statement of comparison of budget and actual amounts as required by GRAP 24, *Presentation of budget information in financial statements*. The explanations for the material variances between the budget and actual amounts were not appropriate. Furthermore, the budget statement was mathematically incorrect. I was not able to determine the full extent of the errors and omissions in the statement of comparison of budget and actual amounts as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to the statement of comparison of budget and actual amounts in the financial statements was necessary.

Unauthorised Expenditure

16. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure for the current and prior year, as the underlying records were not accurate and complete. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to unauthorised expenditure stated at R1 070 570 269 (2021: R893 881 744), in note 52 to the financial statements. Additionally, the municipality incorrectly calculated unauthorised expenditure in the current year by utilising incorrect amounts on the budget and actual expenditure, resulting in the current year unauthorised expenditure being overstated by R98 905 120,89 in note 52 to the financial statements.

Fruitless and wasteful expenditure

17. The municipality did not disclose all fruitless and wasteful expenditure, as required by section 125(2)(d) of the MFMA. The municipality incurred interest on long outstanding fees that was not recorded in the current and prior year. I was unable to determine the full extent of the understatement as it was impracticable to so do.

Irregular expenditure

18. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure for the current and prior year as the underlying records were not accurate and complete. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to irregular expenditure stated at R433 239 914 (2021: R347 547 227) in note 54 to the financial statements. In addition, the municipality did not

disclose all irregular expenditure, as required by section 125(2)(d) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management requirements resulting in irregular expenditure being understated in the current and prior year. I was unable to determine the full extent of the understatement as it was impracticable to do so.

Cash flow statement

19. The municipality did not correctly prepare and disclose cash flows as required by the Standards of GRAP 2, *Cash flow statements,* for current and prior year. This was due to multiple errors in determining cash flows. Additionally, retention fees and Payables, that are non-cash, have been included as part of purchase of property, plant and equipment. I was not able to determine the full extent of the errors as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to the cash flow statement was necessary.

Additional MFMA disclosure

20. During 2021, I was unable to obtain sufficient appropriate audit evidence for the MFMA disclosure due to the status of the accounting records. During the current year, a restatement was made to rectify the previous year misstatements as stated in note 49 to the financial statements that could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the corresponding figure of the additional MFMA disclosure relating to PAYE and UIF, pension and medical aid deductions, and material losses stated at R5 319 391, R7 145 869 and R14 717 313 in note 55 to the financial statements.

Current liabilities

21. I was unable to obtain sufficient appropriate audit evidence regarding the following items, which had a cumulative effect on current liabilities:

    - Other payables of R2 589 805 as disclosed in note 19 to the financial statements.
    - Payments received in advance of R2 064 659 as included in the disclosed balance of R5 267 419 in note 19.

    In addition, accrued leave pay stated at R11 894 983 in note 19 was overstated by R151 495.

Commitments

22. I was unable to obtain sufficient and appropriate audit evidence for commitments for the current year, due to the status of the accounting records. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments, stated at R24 022 191 in note 45 to the financial statements.

23. I was unable to obtain sufficient appropriate audit evidence for the restatement to the corresponding figure for commitments due to the status of the accounting records. The restatement made to rectify a previous year misstatement, as stated in note 48 to the financial statements, could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any

adjustment was necessary to the corresponding figure of commitments stated at R45 811 317 in note 45 to the financial statements.

Context for the opinion

24. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.

25. I am independent of the municiplaity in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

26. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

27. I draw attention to the matter below. My opinion is not modified in respect of this matter.

28. As disclosed in note 51 to the financial statements, the municipality is experiencing financial difficulties as a result of suppliers not paid by the legislated 30 days, unfunded employee benefit obligations, high level of distribution losses, slow collection of outstanding consumer accounts and unfavourable financial ratios. These events or conditions, along with the other matters as set forth in note 51, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matter

29. I draw attention to the matter below. My opinion is not modified in respect of this matter,

Restatement of corresponding figures

30. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Other matter

31. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes (MFMA 125)

32. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not

form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

33. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

34. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

35. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

36. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

37. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objective presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

38. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objective presented in the municipality's annual performance report for the year ended 30 June 2022:

Objective	Pages in annual performance report
KPA 1 - Basic Service Delivery (including Service Delivery and Infrastructure Development NKPA 1)	x – x

39. I was unable to conclude on the usefulness and reliability of the reported performance information as the annual performance report was presented without the approved service delivery budget implementation plan for the year under review and the strategic objective was not aligned between the annual performance report and service delivery budget implementation plan, as required by section 25 of the Municipal Systems Act 32 of 2000 (MSA) and section 1, 21 and 53 of the MFMA. I was unable to conclude on the reported performance information by alternative means.

Other matter

40. I draw attention to the matter below.

Achievement of planned targets

41. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 39 of this report.

Report on the audit of compliance with legislation

Introduction and scope

42. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

43. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance reports and annual reports

44. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets and expenditure identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

45. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year and council did not investigate the reasons for the failure to submit annual financial statements, as required by section 126(1)(a) and section 133(1)(c) of the MFMA respectively.

46. The 2020/21 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

47. The 2020/21 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.

48. The local community was not invited to submit representations in connection with the 2020/21 annual report, as required by section 127(5)(a)(ii) of the MFMA.

49. The council failed to adopt an oversight report containing the council's comments on the 2020/21 annual report, as required by section 129(1) of the MFMA.

50. The oversight report adopted by the council on the 2020/21 annual report was not made public, as required by section 129(3) of the MFMA.

Strategic Planning

51. The SDBIP for the year under review was not approved by the mayor as required by section 53(1)(c)(ii) of the MFMA.

52. The mid year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.

53. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).

Asset management

54. All investments were not made in accordance with the requirements of the investment policy as the percentage of cumulative investments held by the municipality in one institution exceeded the 40% threshold, as required by municipal investment regulation 3(3).

55. Funds were invested in StanLib which is not registered in terms of the Banks Act and in contravention of municipal investment regulation 6.

56. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(2)(b) of the MFMA.

Revenue management

57. An effective system of internal control for revenue and debtors was not in place, as required by section 64(2)(f) of the MFMA.

58. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

59. I was unable to obtain sufficient appropriate audit evidence that accounts for municipal tax and charges for municipal services were prepared on the accrual basis as required by section 64(2)(c) of the MFMA.

Expenditure management

60. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval of funds, as required by section 65(2)(a) of the MFMA.

61. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.

62. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

63. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by procurement processes had to be followed on quotations, competitive bids and local content. Irregular expenditure amounting to R5 010 840 was incurred on the Provision of high mast lighting in McTaggerskamp.

64. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the fruitless and wasteful expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on long outstanding accounts. Fruitless and wasteful expenditure amounting to R22 253 094 was incurred on Bulk purchase of electricity.

65. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by expenditure on projects not budgeted for and overspending on votes.

Procurement and contract management

66. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as management did not submit information requested for 15 contracts. Similar limitation was also reported in the prior year.

67. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured using price quotations as required by SCM Regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.

68. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected

to any person employed by the state, as required by SCM Regulation 13(c). Similar non-compliance was also reported in the prior year.

69. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Similar non compliance was also reported in the prior year.

70. Sufficient appropriate audit evidence could not be obatined that councillors of the municipality did not participate in committees evaluating or approving tenders/ quotations or did not attend meetings of committees evaluating or approving tenders/ quotations, in contravention of section 117 of the MFMA. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the kakamas: refurbishment of sewerage pump stations and Keimos: refurbishment of sewerage pump stations.

71. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the kakamas: refurbishment of sewerage pump stations and Keimos: refurbishment of sewerage pump stations.

72. Some of the construction contracts were awarded to contractors that were not registered with the CIDB and did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A). This non-compliance was identified in the procurement processes for the Keimos: refurbishment of sewerage pump stations.

73. Invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2). Similar non-compliance was also reported in the prior year.

74. Some of the construction contracts were awarded to contractors who did not declare their local content threshold.

75. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA. Similar limitation was also reported in the prior year. This limitation was identified in the procurement processes for the kakamas: refurbishment of sewerage pump stations, Keimos: refurbishment of sewerage pump stations, Currieskamp: Ext/Upgrading of Raw Water Supply and Lutzburg Access road.

Consequence management

76. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

77. Sufficient appropriate audit evidence could not be obatined that unauthorised expenditure amounting to R176 688 525 was authorised through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

78. Allegations of financial misconduct against senior managers were not always tabled before council, as required by disciplinary regulations for senior managers 5(2).

79. Allegations of financial misconduct against senior managers were not always investigated, as required by disciplinary regulations for senior managers 5(3) and section 171(4) of MFMA.

Utilisation of conditional grants

80. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 4 of 2020).

81. The Municipal Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).

82. Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 4 of 2020).

83. Performance in respect of programmes funded by the Financial management Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 4 of 2020).

84. Performance in respect of programmes funded by the Integrated National Electrification Programme Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 4 of 2020)

HR management

85. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

86. The Signed Performance agreement for municipal manager was not dated, thus the auditor was unable to obtain sufficient appropriate audit evidence on whether the Municipal manager signed performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Other information

87. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements and the auditor’s report presented in the annual performance report that have been specifically reported in this auditor’s report.

88. My opinion on the financial statements and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

89. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

90. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

91. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, and the findings on compliance with legislation included in this report.

92. The municipality developed an action plan, but it was not adequately implemented resulting in the re-occurrence of most of the issues.

93. Leadership did not take appropriate action with regard to a lack of controls in the finance and supply chain management unit, resulting in the re-occurrence of the material misstatements and compliance issues.

94. Effective financial systems of internal controls and their management had not been implemented to ensure accurate financial statements. The preparation and review of the financial statements was not adequately planned, to ensure a comprehensive review takes place.

95. The municipality did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

96. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

97. The leadership's lack of accountability for sound financial management had a negative impact on the municipality's financial sustainability, management of assets, overspending of the budget and irregular expenditure not being prevented.

98. Management did not ensure that internal control processes were adequately designed and implemented to ensure cost-effective procurement in certain instances and prevent non-compliance with SCM requirements. Management relied on internal control processes to ensure compliance with procurement requirements, but it is evident from the amount of irregular expenditure that these internal control processes were ineffective and subject to abuse and no actions were taken against staff in this regard.

99. Consequence management was not effective as the council did not investigate all instances of unauthorised, irregular and fruitless and wasteful expenditure to determine whether any person was liable for the expenditure.

Material irregularities

100. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

101. I have notified the acting accounting officer of a material irregularity identified during the audit and the actions the AGSA will take with regard to this material irregularity. Also assessed the progress made relating to the material irregularity identified, reported and resolved in the current year. Refer to the summary for the status of the material irregularity below:

Non-submission of Annual Financial Statements (2021-22)

102. The annual financial statements for the financial year ending 30 June 2022 were not submitted for auditing by 31 August 2022, as required by section 126(1)(a) of the MFMA. The non-submission of the annual financial statements for auditing, and the subsequent non-tabling of the annual report is likely to result in substantial harm to the municipality, as there is a lack of accountability and transparency for the fiscal and financial affairs of the municipality. This caused the following legislative processes relating to the financial year ending 30 June 2022 being delayed/ not implemented:

- The audit of the financial statements by the Auditor-General
- Consideration of the annual report by the municipal council
- Adoption of an oversight report containing council's comments on the annual report
- Making the oversight report public
- The assessment of the annual financial statements and audit report by the MEC for local government in the province
- The submission of the annual report and oversight report to the provincial legislature

103. The acting accounting officer was notified of the material irregularity on 25 October 2022 and invited to make a submission of the actions taken to address the matter. The annual financial statements of the municipality for the year ended 30 June 2022 have been prepared and submitted to the Auditor General on 15 December 2022.

104. Therefore the material irregularity has been resolved.

Material irregularities in progress

105. I identified a material irregularity during the previous audit and notified the accounting officer of this, as required by material irregularity regulation 3(2). By the date of this auditor's report, the status of the materiality is as follows.

Status of previously reported material irregularities

Full and proper records not kept (2019-20) – infrastructure assets, performance management and financial distress

106. The accounting officer was notified of the material irregularity on the 11th of June 2021. The accounting officer has not taken appropriate action committed to in his written submission in response to the notification. I recommended that the accounting officer should take the following action to address the material irregularity by the 9th of September 2022.

(i)The non-compliance with section 62(1)(b) of the MFMA should be investigated to determine the reasons and circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and to address control weaknesses;

(ii) Based on the reasons and circumstance, appropriate action should be taken to develop and commence with the implementation of an action plan to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards, as required by 62(1)(b) of the MFMA. The plan should include anticipated timeframes and address the following key areas as a minimum:

(a) Complete asset register of all of the municipality's infrastructure assets, including work-in-progress, as well as information for assets that have been fully depreciated but still in use;

(b) Billing information and reconciliations to support revenue from service charges; and

(c) Payment vouchers, creditor statements and creditor reconciliations for purchases. The expenditure incurred should be supported by sufficient evidence that goods and services paid for were received, including payments made from conditional grant funding.

(iii) I further recommend that the accounting officer should take appropriate action to develop and commence with the implementation of an action plan to address the financial problems of the municipality, as required by section 135(1) and 135(3)(a) of the MFMA, within 6 months from date of notification. The plan should describe the anticipated timeframe and milestones to be achieved and include as a minimum strategies to:

- ✓ Increase the collection of revenue;
- ✓ Efficiently manage the available resources of the municipality;
- ✓ Enter into payment arrangements with major suppliers;
- ✓ Optimise costs in respect of bulk purchases; and
- ✓ Repair and maintain infrastructure assets.

107. The accounting officer has not adequately implemented the above recommendations. I am determining the most suitable action to take.

Auditor General

Kimberley

20 June 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

   - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the [name of the auditee] to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and

other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.